PRESS CONFERENCE

Mario Draghi, President of the ECB,Vítor Constâncio, Vice-President of the ECB,Frankfurt am Main, 25 January 2018

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Ladies and gentlemen, first of all let me wish you a Happy New Year. The Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases.

Regarding **non-standard monetary policy measures**, we confirm that our net asset purchases, at the new monthly pace of €30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, we stand ready to increase the asset purchase programme (APP) in terms of size and/or duration. The Eurosystem will reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favourable liquidity conditions and to an appropriate monetary policy stance.

Incoming information confirms a robust pace of economic expansion, which accelerated more than expected in the second half of 2017. The strong cyclical momentum, the ongoing reduction of economic slack and increasing capacity utilisation strengthen further our confidence that inflation will converge towards our inflation aim of below, but close to, 2%. At the same time, domestic price pressures remain muted overall and have yet to show convincing signs of a sustained upward trend. Against this background, the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability. Overall, an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term. This continued monetary support is provided by the net asset purchases, by the sizeable stock of acquired assets and the forthcoming reinvestments, and by our forward guidance on interest rates.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Real GDP increased by 0.7%, quarter on quarter, in the third quarter of 2017, following similar growth in the second quarter. The latest economic data and survey results indicate continued strong and broad-based growth momentum at the turn of the year. Our monetary policy measures, which have facilitated the deleveraging process, continue to underpin domestic demand. Private consumption is supported by rising employment, which is also benefiting from past labour market reforms, and by growing household wealth. Business investment continues to strengthen on the back of very favourable financing conditions, rising corporate profitability and solid demand. Housing investment has improved further over recent quarters. In addition, the broad-based global expansion is providing impetus to euro area exports.

The risks surrounding the euro area growth outlook are assessed as broadly balanced. On the one hand, the prevailing strong cyclical momentum could lead to further positive growth surprises in the near term. On the other hand, downside risks continue to relate primarily to global factors, including developments in foreign exchange markets.

Euro area annual HICP inflation was 1.4% in December 2017, down from 1.5% in November. This reflected mainly developments in energy prices. Looking ahead, on the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around current levels in the coming months. For their part, measures of underlying inflation remain subdued – in part owing to special factors – and have yet to show convincing signs of a sustained upward trend. Yet, looking forward, they are expected to rise gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) continues to expand at a robust pace, with an annual rate of growth of 4.9% in November 2017, after 5.0% in October, reflecting the impact of the ECB’s monetary policy measures and the low opportunity cost of holding the most liquid deposits. Accordingly, the narrow monetary aggregate M1 continued to be the main contributor to broad money growth, expanding at an annual rate of 9.1% in November, after 9.4% in October.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations increased to 3.1% in November 2017, after 2.9% in October, while the annual growth rate of loans to households stood at 2.8% in November, compared with 2.7% in October. The euro area bank lending survey for the fourth quarter of 2017 indicates that loan growth continues to be supported by increasing demand and a further easing in overall lending conditions.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – notably for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for an ample degree of monetary accommodation to secure a sustained return of inflation rates towards levels that are below, but close to, 2%.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to strengthening the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the increasingly solid and broad-based expansion strengthens the case for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. All countries would benefit from intensifying efforts towards achieving a more growthfriendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. Strengthening Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing discussions on completing the banking union and the capital markets union, and on further deepening Economic and Monetary Union.

We are now at your disposal for questions.

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I have a question concerning the asset purchase programme. When you launched the programme you decided to keep the purchases as strictly according to the ECB capital key. But now it turns out that you are increasingly deviating from this as a new survey or a new calculation from the Centre of European Economic Research (ZEW) has claimed. Why is this so? Is this affecting the neutrality of the purchases?

Draghi: It's not so, it doesn't affect the neutrality of the purchases – and I'll tell you the reasons why you observe these deviations. The ECB doesn't favour certain countries over others in its PSPP purchase programme implementation. As you know, purchases are guided by the ECB's capital key, which takes into account GDP and population. Now, focusing excessively on any particular purchase period, for example on 2017 only, could result and yield wrong interpretations. The overall stock of Eurosystem PSPP holdings is the relevant metric for any assessment of the programme and not the recent purchase flows. Just to give you an example: currently the Eurosystem holdings of German securities are above the German share of the ECB capital key. This equates to the Eurosystem holdings€18 billion more in German securities than what is implied by the [German] ECB capital key share.

Of course the largest deviation from the ECB's capital key is Greece due to their ineligibility. In addition Eurosystem holdings of Portuguese securities are 1.8%, which is 27% below, compared to [the Portuguese] share of ECB capital key, which is 2.48%. These flows can differ as the design of the programme is flexible and the distribution of actual purchases often deviates from the ECB capital key. For example if we fall short of purchase targets in one jurisdiction for market liquidity reasons, then the shortfall is made up in others. This has happened since the beginning of the programme so it's nothing new. Moreover, this is particularly relevant for the process of reinvestments, where the amounts to be reinvested are sometimes distributed over three months. This can lead to temporary changes in the relative net purchase shares. In certain countries, implied purchase shares are above the capital key percentages as we don't buy the required bonds in other jurisdictions due to various programme constraints, for example eligibility criteria, issue and issuer limits, market liquidity.

So, all these adjustments reflect the programme's inbuilt flexibility and the commitment to a continued smooth implementation of the programme. Our general approach has never been changed. Our purchase shares are guided by ECB capital key as opposed to market cap[italisation], which is our reference for all other purchase programmes. Moreover comparing and finally individual jurisdictions net issuance and the actual purchases in the respective countries suggests, all other things being equal, that the downward impact of the programme on yields for countries such as Germany should be higher than on other countries.

My first question would be about your comment on the currency volatility. You said that it represents a source of uncertainty and also with regards to the implication for inflation. Now, you also talk about your strength and conviction about that inflation will turn to the targets. So I'd like to ask how much euro is already a problem in that respect, or what will have to happen for the exchange rate to become a problem in respect to inflation target.

My second question would be about your discussion on reviewing the forward guidance. The account of the meeting from December mentions that there was a mention of a need to revisit the guidance early in the year. My question is, has this discussion already started? If so, what was the basic summary of that discussion?

Draghi: Let me answer the second question first. Let me get the record straight because several members of the Governing Council were surprised by the reading of the accounts – by the effects that the reading of the accounts had on the markets and they asked me to clarify this. First of all, there is no difference between the accounts and what I said in the press conference. What I was asked was, did you discuss cutting the link in your guidance between the APP – the asset purchase programme – and inflation and what is your view on that question? I responded; we didn't discuss cutting the link. Actually in a sense, I went beyond what was in the accounts in my press conference because I said as a consequence of this continued expansion, also the component coming from the forward guidance of interest rates will gain further and further importance. This is a natural process led by the recovery. In this sense our monetary policy accompanies the recovery, as I had chance to say in a speech some time ago – but we haven't discussed the link.

Now, the excerpt of the accounts says: looking ahead the view was widely shared among members. So the Governing Council's communication will need to evolve gradually without a change in sequencing. The only discussion that took place was about the need to have a discussion. You see, my press conference went in – started going to the substance. But the actual discussion in the Governing Council was only scheduling the discussion which was to take place in the early part of this year. Well, now, that's important to clarify.

So discussion hasn't really started. We really went through the events since October to now and trying to basically assess whether something has changed. There hasn't been much of a change other than a continuing strengthening of the economy more – to some extent even more – than expected. Now, we have as I said downside risks relating primarily to geopolitical and especially foreign exchange markets. By and large, the risks to growth are balanced. Now, can we declare victory? The answer is no, not yet. Price pressures are muted, underlying inflation still doesn't show signs of any convincing upward movements. Price pressures along the pricing chain remain broadly stable and subdued. Recent data on wage growth confirms some lift-off] from its lows of 2016 second quarter, but it's a lift-off so far mostly due to wage drift, not negotiated wages. We have to look better and see whether this picks up and is confirmed.

The survey measures of long-term inflation expectations remain broadly unchanged, while market-based measures have increased to 1.76%/78%. By and large there isn't much of a change, which led us to simply restate the policy, as I've just said in the introductory statement, where basically we continue the monthly pace of €30 billion extended to run until the end of September 2018 and so on. There is no need for me to read it again, I guess. Also we went through how we judge whether